BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Periodic Reporting (Proposal Two) Docket No. RM2021-4

COMMENTS OF PITNEY BOWES INC.
(May 14, 2021)

Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments in response to the Commission's Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Two) (Notice).[1]

Proposal Two represents the Postal Service's most recent attempt to change the Commission's established methodology, changing how the Cost and Revenue Analysis (CRA) adjustment factor is calculated by reclassifying the significant majority of allied and support cost pools in the First-Class Letter Mail cost avoidance model as "fixed."[2] The Commission should reject Proposal Two because it is largely based on arguments the Commission has previously considered and rejected. Not only has the Commission denied the Postal Service's prior proposals to reclassify allied and support cost pools as "unsupported," the Commission has been clear what evidentiary burden is required to justify a change. In Docket No. RM2010-13 the Commission held, "[u]ntil the Postal Service explicitly models allied / support costs, the Commission will adhere to the established piggyback method of distributing these costs."[3] The Postal Service has not directly modeled allied and support costs; therefore, Proposal Two should be denied on that basis alone.

[1] *See* Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Two) (Mar. 26, 2021) (Notice).
[2] *See* Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two) (Mar. 24, 2021) (Petition).
[3] Docket No. RM2010-13, Order No. 1320, Order Resolving Technical Issues Concerning the Calculation of Workshare Discounts (Apr. 20, 2012) at 40.

Recognizing that it cannot meet its burden to justify reclassifying the allied and support cost pools, the Postal Service attempts to revive stale arguments with new terminology and an analysis based on limited IMb scan data from In-Office Cost System (IOCS) tallies.[4] Whatever the merits of using more complete IMb data in future proposals, this analysis is insufficient to support Proposal Two. The data are incomplete and unreliable because rate category information is available for only a very small and unrepresentative portion of IOCS samples in the allied and support cost pools for First-Class Mail letters for which the Postal Service proposes a different treatment. The conclusions the Postal Service seeks to draw from the IOCS data are also inconsistent with other more reliable data. The available CRA cost data, established methods for cost attribution and distribution, and operational analysis all confirm that the Commission's established methodology is correct; allied and support mail processing activities and costs vary indirectly by presort level because these activities and costs support direct operations (e.g., sorting) whose costs indisputably vary by presort level.

The Commission should also reject the proposed exclusion of P.O. Box sorting costs from the CRA adjustment because the underlying premise of this proposal – that P.O. Box sorting costs do not vary by rate category – is incorrect and contradicted by the Postal Service's own cost avoidance model which shows that P.O. Box sorting costs do vary by rate category. The Commission should reject the proposal to exclude P.O. Box costs for the same reason that it rejected the Postal Service's proposal in Docket No. R2006-1 to exclude workshare-related delivery cost avoidances. Furthermore, the Petition states that a prerequisite to excluding P.O. Box sorting costs from the First-Class Mail letter cost avoidance model is that IOCS must be able to accurately isolate P.O. Box costs from other mail

[4] *See* Petition at 11-13. "The In-Office Cost System (IOCS) is the primary probability sampling system the U.S. Postal Service uses to attribute the labor costs of clerks, mail handlers, city carriers, and supervisors related to handling the mail. Data collected from IOCS enables the Postal Service to allocate labor costs to each mail category." United States Postal Service, Office of Inspector General, Audit Report: In-Office Cost System Sampling Processes, Report Number 19-032-R20 (May 22, 2020) at 1.

processing costs.[5] Recent unexplained trends in P.O. Box sorting costs, however, suggest that the Postal Service has not successfully done so.

The timing of Proposal Two suggest that it was hastily filed to change the First-Class Mail letters cost avoidance model in advance of the first market dominant price adjustment subject to the Commission's new workshare regulations.[6] But the Commission last reaffirmed the established piggyback methodology over ten years ago and the timing of any subsequent petition to change the established method was within the Postal Service's control. Similarly, the Postal Service's failure to make the type of evidentiary showing the Commission has repeatedly stated would be required to change the established methodology is a problem entirely of the Postal Service's own making. Again, the Postal Service has had over 10 years since the Commission's decision in Docket No. RM2010-13 to develop a proposal based on directly modeling allied and support costs. It failed to do so. Similarly, the P.O. Box proposal is analogous the Postal Service's proposal to exclude delivery costs in Docket No. R2006-1; then as now, the Postal Service has failed to provide the evidentiary support to justify the change.

Because the Postal Service fails to meet its burden of proof in this case to show that Proposal Two would result in improvements to the accuracy and completeness of the current costing methodology and presents no sound reason for the Commission to revisit its prior determinations, the Commission should reject Proposal Two.

[5] *See* Petition at 10-11.
[6] *See* 39 CFR §§ 3030.280 *et seq*.

I. THE COMMISSION HAS REPEATEDLY REJECTED SIMILAR PROPOSALS TO RECLASSIFY ALLIED / SUPPORT COST POOLS IN THE FIRST-CLASS MAIL COST AVOIDANCE MODEL

A. Background on the Current Cost Methodology

In support of the Cost and Revenue Analysis (CRA) report, the Postal Service disaggregates mail processing costs into cost pools. The cost pools represent groupings of specific operational tasks. Since Docket No. R2006-1, the Commission has treated the cost pools in the First-Class Mail letter cost model as workshare-related (proportional), workshare-related (fixed), a category that is partly proportional and partly fixed, and non-workshare-related.[7] Workshare-related (proportional) cost pools are cost pools whose activities and associated costs depend on the level of presort. Workshare-related fixed cost pools represent mail processing costs incurred by workshared mail regardless of the level of presort. Non-workshare-related cost pools are assumed to be unrelated to worksharing activities and are omitted from the avoided cost calculation.

Under the Commission's approved methodology, piece sorting operations are treated as proportional, while forwarding, accepting, and customer service activities are treated as fixed. Since Docket No. R2006-1, the Commission has concluded that although "allied/support" and "unexpected" costs pools are not modeled, they are much more likely to vary indirectly with presort level than to remain fixed.[8] Under the established methodology these "piggybacked" cost pools vary to the same degree that average unit processing costs for presort First-Class Mail vary by presort level; thus, allied/support and unexpected costs are distributed to workshare price categories in the same proportion as proportional, fixed, and non-workshare-related costs to those categories.[9]

[7] *See* Docket No. R2006-1, Opinion and Recommended Decision (PRC Op. R2006-1) (Mar. 14, 2007) at ¶ 5161.
[8] *See id*.
[9] Assigning indirectly caused costs to price categories in proportion to directly caused costs is known as "piggybacking."

B. Review of Prior Commission Decisions

In Docket No. R2006-1 the Postal Service proposed a methodological change to the First-Class Mail letter workshare cost avoidance model to treat only those cost pools that it had explicitly modeled as varying with presort.[10] Under the Postal Service's proposal all other cost pools would be classified as "fixed" and excluded from cost avoidances. The Commission held that the Postal Service's position that non-modeled cost pools do not vary with presort level was unsupported:

> The Commission finds the Postal Service's assumption that the cost of non-modeled operations are not affected by worksharing to be insufficiently supported. The majority of the costs . . . treated as fixed are in mail processing activities that support other mail processing activities, including piece sortation. It is reasonable to assume that these supporting costs are at least indirectly affected by worksharing.[11]

In Docket No. R2006-1, the Commission adopted the current methodology described as follows:

> In the letter mail processing cost model, the Commission assigns the letter sorting cost pools as proportional, . . . [fixed pools] are assigned as either worksharing-related fixed or non-worksharing related, as appropriate. The remaining costs, which are largely allied and support costs, are distributed to the three groups in the same proportions as the directly assigned pools. The allied and support pools support all mail processing operations, and so it is reasonable to assume that they are affected by worksharing to the same extent as the proportional and fixed operations they support.[12]

In Docket No. RM2010-13 the Postal Service sought to reverse the Commission's prior holding. The Postal Service again proposed that cost pools be treated solely as proportional or fixed. The Postal Service argued that all cost pools that it had not directly modeled, including all indirect piggybacked allied and support cost pools, are fixed and should be excluded from the cost avoidance calculations,[13] The Commission once again rejected the proposal, specifically holding:

> From an operational standpoint, the major elements of allied/support activity are moving mail from a loading dock to various sorting operations, preparing the mail for induction in those operations, and then moving sorted mail back to the dock. The Commission's assumption that labor costs in most mail processing operations are 100

[10] *See* PRC Op. R2006-1, at ¶ 5111.
[11] *Id*., at ¶ 5160.
[12] *Id*., at ¶ 5160-61.
[13] *Id*.

> percent volume variable does not require specific analysis of the dependence of such allied/support operations on the level of the piece sorting operations that they support.[14]
>
> …
>
> Therefore, it is reasonable to assume that mail processing labor costs incurred by allied operations will vary in rough proportion to the number of sorting operations that they undergo.[15]

The Commission further held that the Postal Service's proposal was inconsistent with prior testimony of its own operational witness confirming that allied and support costs do vary indirectly with presort level:

> [T]he Postal Service's operational analysis focuses on tasks performed on the platform. The Commission recognizes that of all the various tasks performed in the allied/support cost pools, platform costs are the least likely to vary with presort level. But the Postal Service's own operational witnesses have shown that even platform-based tasks are avoided by highly presorted mail.
>
> The Commission is not persuaded by the Postal Service's claims that the current method of piggybacking allied/support and unexpected costs on modeled costs is arbitrary. The costs associated with these activities are incurred to support all processing operations, including the sorting operations. The Commission remains convinced that distributing allied/support and unexpected costs in the same proportions as all other costs is the best approximation of the effect that presort level has on those costs. *See* PRC Op. R2006-1, ¶ 5160.[16]

The Commission further held that to the extent the Postal Service had continued objections with the established "piggyback" approach, it was best positioned to address them by explicitly modeling allied and support costs, something the Postal Service had stated was a goal since Docket No. MC95-1.[17] Accordingly, the Commission was clear that future proposals to change the established cost methodology must be based on real evidence:

> Until the Postal Service explicitly models allied/support costs, the Commission will adhere to the established piggyback method of distributing these costs.[18]

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[14] Order No. 1320, at 41.
[15] *Id*., at 42.
[16] *Id*. citing Docket No. R2005-1, Tr. 5/1642, 1644, 1645; PRC Op. R2006-1, ¶ 5160.
[17] *See* Docket No. MC95-1, Direct Testimony of Marc A. Smith on behalf of the United States Postal Service (USPS-T-10)(Mar. 24, 1995).
[18] Order No. 1320 at 40.

In short, not only are the Commission's prior decisions based upon a straightforward analytical approach, but they also articulate to the Postal Service what it most prove to change the Commission's approach. Piece handling costs vary with presort level. Allied / support cost pools support piece handling operations. Therefore, the established piggyback method distributes non-modeled allied and support costs in the same proportion as the modeled costs by presort level. Equally clear is the Commission's holding that if the Postal Service wishes to change the Commission-approved piggyback methodology, it must directly model allied / support costs to demonstrate that they are fixed or unrelated to presort level. In the absence of direct modeling, there is no basis to revisit the established methodology.

C. Comparison of the Effects of Proposal Two and Prior Proposals

Applying the Commission's prior holdings, which are both consistent and clear on what the Postal Service would need to do to change the Commission-approved methodology, it becomes evident that the Postal Service has not provided sufficient support for the Commission to accept Proposal Two. Despite the surface-level vocabulary changes, the underlying reality is that Proposal Two is functionally indistinguishable from the Postal Service's prior proposals that the Commission fully considered and then properly rejected. Proposal Two, like the prior proposals, fails, both analytically and because it is a results-based approach to exclude allied and support costs from the cost avoidance model for the purpose of reducing the modeled costs avoided and, by extension, permissible discounts.

The IOCS reported mail processing costs for First-Class Letter Mail in 52 cost pools in the FY 2020 Annual Compliance Report (ACR), as shown in Table 1. The table also shows in aggregate how the Postal Service proposed classifications would change the count in each grouping. As with previous proposals the net effect of Proposal Two would be to substantially increase the number of cost pools that are classified as fixed and, thus, are excluded from the cost avoidance model.

Table 1 – Cost Pools by Category: Current and Proposed

Category	Current Method	Proposal Two
Proportional / Modeled	7	10
Piggybacked (Allied / Support) / Correlated	34	23
Fixed / Unrelated	11	19
Total	**52**	**52**
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 1"		

Even more important than changing counts, Proposal Two would have a substantial effect on the unit costs in each of these categories, as shown in Table 2. Proposal Two would exclude from the cost avoidance model approximately 25 percent or 1.5 cents of the total unit costs via the reclassification of allied and support cost pools as fixed.

Table 2 – Unit Costs and Distribution of Cost Pools by Category: Current and Proposed

Category	Unit Costs (Cents)		% Distribution	
	Current Method	Proposal Two	Current Method	Proposal Two
Proportional / Modeled	3.890	3.447	65%	58%
Piggybacked (Allied / Support) / Correlated	1.754	0.708	29%	12%
Fixed / Unrelated	0.347	1.836	6%	31%
Total	**5.990**	**5.990**	**100%**	**100%**
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 2"				

As Table 2 shows, under current cost pool classifications, piece sorting costs comprise unit costs of 3.89 cents, or about 65 percent of the total First-Class Mail letter mail processing unit costs. Unexpected and allied and support costs comprise an additional 1.75 cents of unit cost, or 29 percent of the total. Fixed costs that do not vary with presort level comprise only 6 percent of the costs. These distributions make logical sense. The primary function of clerks and mailhandlers is to finalize letters into carrier walk sequence and the piece handlings required to do that should cost more than the container handlings to get the mail to and from piece sorting.

In contrast, the dramatic redistribution of unit costs and cost pools in Proposal Two seem wrong at even the most superficial level. Proposal Two shows far less of the unit cost in piece handling and

allied and support costs that vary with presort level, and far more of those costs fixed with respect to presort level. Under Proposal Two, fully 31 percent of the unit costs do not vary with presort level.

Focusing on Proposal Two's treatment of costs other than piece sorting costs, Table 3 below, highlights why the proposal cannot be correct. Proposal Two results in 72 percent of the unit cost being invariant to presort level. In contrast, under the Commission-approved model only 17 percent of these costs are classified as fixed. Given that the major activity of allied and support labor is to move mail to and from machines for sorting, it is simply not credible that 72 percent of allied and support costs are totally invariant with respect to presort level or the number of required sorts.

Table 3 – First-Class Mail Presort Letters Non-Piece Sorting Categories

Category	Unit Costs (Cents)		% Distribution	
	Current	Proposed	Current	Proposed
Piggybacked (Allied / Support) / Correlated	1.754	0.708	83%	28%
Fixed / Unrelated	0.347	1.836	17%	72%
Total	**2.100**	**2.544**	**100%**	**100%**
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 3"				

Table 4 lists the cost pools that the Postal Service proposes moving to fixed (unrelated), as well as their current classification, and unit cost.

Table 4 – Cost Pools USPS Proposes to Classify as Fixed

Cost Pool	Treatment		Unit Cost (Cents)
	Current Method	Proposal Two	
MODS 17 – 1PLATFRM	Piggybacked	Fixed	0.613
NON MODS – D.PO BOX	Proportional		0.500
NON MODS – ALLIED	Piggybacked		0.238
NON MODS – MISC	Piggybacked		0.177
MODS 17 – 1SCAN	Piggybacked		0.059
MODS 18 – 1MISC	Piggybacked		0.026
NDCS – PLA	Piggybacked		0.018
NON MODS – BUSREPLY	Proportional		0.004
MODS 18 – REWRAP	Piggybacked		0.004
MODS 18 – EXPRESS	Piggybacked		0.004
NON MODS – EXPRESS	Piggybacked		0.000
Total			**1.642**
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 4"			

Shifting the distribution of costs from proportional and piggybacked allied / support cost pools to fixed costs pools would significantly reduce the modeled cost avoidances for more finely sorted First-Class Mail Presort Letters, as shown in Table 5.

Table 5 – Letters Cost Avoidances: Current and Proposed

Price Category	(Cents)	
	Current Method	Proposal Two
Nonautomation Presort	6.4	7.3
Auto MAADC Presort	5.2	6.4
Auto AADC	2.8	2.2
Auto 5-Digit	4.1	3.2
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 5"		

As shown in Table 6, the results of Proposal Two bear a remarkable similarity to prior Postal Service efforts to reclassify cost pools to redistribute costs within First-Class Mail presort letters to fixed cost pools.

Table 6 – USPS Proposed Percent Distribution of Unit Costs by Categorization

Category	R2006-1	RM2010-13	Proposal Two
Proportional / Modeled	65%	71%	58%
Piggybacked (Allied / Support) / Correlated	0%	0%	12%
Fixed / Unrelated	35%	29%	31%
Total	**100%**	**100%**	**100%**
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 6"			

Accurate classification of the cost pools is important because it directly affects measurement of avoided costs and, ultimately, discounts and effective prices. In view of its timing and intended effects, as well as its failure to provide the additional information the Commission has stated would be necessary to change the established methodology, Proposal Two should be rejected as a results-oriented effort to reduce workshare discounts before the Commission's new workshare rules take effect. The Commission considered and rejected the Postal Service's objections to strengthening the

workshare rules as part of the 10 year review of the market dominant rate system.[19] The Commission also denied the Postal Service's request that it waive application of the new rules to the First-Class Mail 5-Digit Automation Letters discount in the next price adjustment filing.[20] Now comes the Postal Service with a proposal to reduce the modeled avoided costs for the very same rates, thus, avoiding the requirement that it improve historically inefficient workshare discounts.

II. PROPOSAL TWO PROVIDES NO BASIS TO REVISIT THE COMMISSION'S PRIOR DETERMINATIONS REGARDING FIRST-CLASS MAIL COST POOL CLASSIFICATION

The Commission has repeatedly considered and rejected similar proposals to reclassify allied and support costs as unsupported and incomplete. The two new elements of Proposal Two, the use of IOCS data as a surrogate for direct modeling, and the removal of the costs associated with the P.O. Box activities from the First-Class Mail cost avoidance model, should also be rejected as unsupported by reliable evidence.

A. Proposal Two Fails to Provide Reliable Evidence to Support Cost Pool Classification Changes

1. The Postal Service Has Still Not Directly Modeled Allied and Support Costs

As discussed above, in Order No. 1320 the Commission held:

> The Commission concludes that the established method of allocating allied/support costs to presort categories in the letter cost model is a better approximation of how these costs vary with presort level than the Postal Service's assumption that they are entirely fixed. The Commission finds that the Postal Service's descriptions of allied/support operations are incomplete and inaccurate, and that the more thorough analysis of those operations by Pitney Bowes confirms that they vary substantially with presort level. Until the Postal Service explicitly models allied/support costs, the Commission will adhere to the established piggyback method of distributing those costs.[21]

[19] *See* Docket No. RM2017-3, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Dominant Products, Order No. 5763 (Nov. 30, 2020), at 214-219.
[20] *See* Docket No. RM2021-5, Order Denying Postal Service Application for Waiver Under 39 C.F.R. § 3030.286, Order No. 5873 (Apr. 12, 2021).
[21] Order No. 1320, at 40.

The Postal Service concedes that it has not explicitly modeled allied labor support costs to support Proposal Two.[22] Proposal Two should be denied on this basis alone.

The initial Petition did not even include detailed narrative explanations to support the proposed cost pool reclassifications. The justifications were limited to four pages of conclusory and ultimately circular explanations, seemingly prompting the Commission to file a Chairman's Information Request directing the Postal Service to provide detailed explanations of the proposed changes.[23] And, in fact, the Postal Service's responses to the information requests reinforced the fact that the Postal Service is relying on the same unsupported assertions that the Commission previously considered and rejected.[24]

2. The Novel IOCS Analysis Cannot Justify Proposal Two Because the Data is Incomplete and Unreliable

The Postal Service's attempt to analyze IMb scans of IOCS tallies as an "alternative approach to the Commission's request to explicitly model allied activities" is unavailing. The IOCS analysis is incomplete and unreliable and, thus, cannot justify Proposal Two.

The Postal Service presents the IMb analysis as a novel alternative that the Commission had not previously considered in Docket No. RM2010-13:

> Proposal Two relies on FY2020 IOCS data by rate category to analyze the behavior of cost pools as proportional, piggy-backed or fixed. When Order No. 1320 was issued on April 20, 2012, the infrastructure to tie IOCS tallies back to rate categories from manifest information had not yet been developed. Thus, compilation of data on costs by rate category such as the tally analysis was not an option for the Commission to request at the time. The IOCS analysis is an alternative approach to the Commission's request to explicitly model allied activities.[25]

This contention misreads the Commission's holdings in Docket No. RM2010-13. In fact, the Commission anticipated the type of analysis proposed here and explicitly identified its potential limitations, namely that IMb scans are not always available and thus any such IMB-based approach

[22] Postal Service Response to ChIR No. 1, Question 6.
[23] Petition at 6-9.
[24] *See* Docket No. RM2021-4, Responses of the United States Postal Service to Questions 1-5 of ChIR No. 2, (Apr. 29, 2021), Question 3.
[25] Postal Service Response to ChIR No. 1, Question 6.

"would…have to find a way to measure the costs of activities that do not generate IMb scans at this highly disaggregated level."[26]

The Postal Service attempts to downplay the seriousness of this issue by presenting a table indicating that it was able to match more than half of First-Class Mail Presort Letter costs to rate category using IMbs. The table does not provide the full story, however, because it only presents direct-tally[27] costs at plants. When all First-Class Mail Presort Letter mail processing costs, including (1) all facilities; and (2) mixed-mail[28] and not-handling[29] tally costs in addition to direct tally costs, the number drops to 20 percent. Worse, the IMb match rate for those cost pools that Proposal Two would reclassify as "fixed," is only FIVE percent.

Table 7 – IMb Match Rate for Cost Pools USPS Proposes to Reclassify as Fixed

Pool	CRA Unit Cost (Cents)	Matched Direct Tally Costs as % of Volume Variable Costs
Plants (MODS 1&2 and NDCs)		
MODS 17 – 1PLATFRM	0.613	5%
MODS 17 – 1SCAN	0.059	16%
MODS18 – 1MISC	0.026	11%
NDCS – PLA	0.018	11%
MODS 18 – REWRAP	0.004	13%
MODS 18 – EXPRESS	0.004	42%
Subtotal	**0.723**	**6%**
NON-MODS		
NON MODS – D.PO BOX	0.500	3%
NON MODS – ALLIED	0.238	3%
NON MODS – MISC	0.177	5%
NON MODS – BUSREPLY	0.004	0%
NON MODS - EXPRESS	0.000	0%
Subtotal	**0.919**	**3%**

[26] Order No. 1320, at 50.
[27] "Direct tallies, by definition, have an activity code that identifies the tally with a product. Direct tally costs are assigned directly to the appropriate product." Rule 39 C.F.R. Section 3050.60(f) Report for FY 2019 (Summary Descriptions) (July 2, 2020), Appendix C, at C-1.
[28] "Mixed-mail tally costs…are divided into a large number of categories…corresponding to different mixed-mail item and container types….For each mixed-mail category, a set of 'distributing' tallies is identified." *Id.*
[29] "Except for Platform, not handling tally costs for non-support cost pools are distributed in proportion to the direct and distributed mixed-mail tallies in the same cost pool…For the Platform cost pools, not-handling tally costs are distributed in proportion to the direct and distributed mixed-mail tallies aggregated across a set of…distribution and allied cost pools." *Id* at C-1 – C-2.

TOTAL	**1.642**	**5%**
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 7"		

Furthermore, contrary to the Commission's admonition, the Postal Service has not conducted any real analysis to "measure the costs of activities [representing 95 percent of costs in these pools] that do not generate IMb scans at this highly disaggregated level." The Postal Service concedes that it "has not conducted any formal analysis," but rather has "considered several factors informally."[30] Proposal Two rests entirely on the Postal Service's informal speculations that the matched direct tally costs might be representative of the remaining direct tally, mixed-mail, and not-handling costs. This is not enough. The Commission has repeatedly rejected unsupported proposals to reclassify these very same cost pools and should reject Proposal Two for the same reasons.

Furthermore, the contention that direct tally costs in allied and support cost pools are representative of mixed-mail and not-handling tallies is contradicted by the Postal Service's own costing methods. Rather than just using direct-tally costs from the same cost pool as the distribution key for mixed-mail and not-handling tally costs, the Postal Service uses cross-pool distribution keys for the allied and support cost pools. These distribution keys "include tallies from cost pools in the Modeled/Proportional, Correlated, and Unrelated Groups."[31] This means that the Postal Service generally uses a cross-pool key for mixed-mail costs and then the combination of direct tally costs and these cross-pool-determined mixed-mail costs to distribute not-handling tallies.

Excluding the P.O. Box cost pool, which is discussed below, allied and support costs, which use a cost pool distribution key, comprise 99 percent of the costs in cost pools USPS proposes to move to fixed.

[30] Postal Service Response to ChIR No. 1, Question 10(c).
[31] Postal Service Response to ChIR No. 1, Question 1(e).

Table 8 – First-Class Mail Presort Letters Unit Cost in Cost Pools USPS Proposes Shifting to Fixed Treatment (Excluding P.O. Box Cost Pool)

Pool	CRA Unit Cost (Cents)
Cross-Pool Distribution Key	
MODS 17 – 1PLATFRM	0.613
NON MODS – ALLIED	0.238
NON MODS – MISC	0.177
MODS 17 – 1SCAN	0.059
MODS 18 – 1MISC	0.026
NDCS – PLA	0.018
Subtotal	**1.130**
Within-Pool Distribution Key	
NON MODS – BUSREPLY	0.004
MODS 18 – REWRAP	0.004
MODS 18 – EXPRESS	0.004
NON MODS – EXPRESS	0.000
Subtotal	**0.012**
TOTAL	**1.142**
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 8"	

This approach for allied and support cost pools strongly contradicts the Postal Service's proposition that the 5 percent of costs in allied and support cost pools for which rate category was identified are representative of the remaining 95 percent.

Even ignoring the issues discussed above, the conclusions the Postal Service draws from its analysis of IMb scans at plants is dubious on statistical grounds. To support the Postal Service's proposed reclassification of cost pools at plants, one would require the proportion of matched tallies associated with 5-Digit Automation Letters to be statistically different between the cost pools the Postal Service considers piggybacked / correlated and those it considers fixed / unrelated. It is not. Instead, the 95 percent confidence intervals provided in response to the Chairman's Information Request show that the estimate of the 5-Digit tally proportion for the cost pools the Postal Service would reclassify as fixed / unrelated substantially overlaps the corresponding estimate for cost pools the Postal Service would classify as piggybacked / correlated - 63.8 to 72.5 percent for fixed / unrelated compared to 62.3

to 67.7 percent for piggybacked / correlated.[32] The data shows the estimates are statistically indistinguishable.

The FY 2018 and FY 2019 IOCS analyses provided by the Postal Service in response to Commission information requests also contradict the conclusions the Postal Service draws from the FY 2020 IOCS analysis.[33] Specifically, the Postal Service cites to the FY 2020 5-Digit tally proportion for "Unrelated to Presort" cost pools being higher than for the "Modeled/Proportional" and "Correlated" cost pools and closer to the 5-Digit RPW volume proportion to argue that its proposed classifications are correct.[34] But this was not the case in either FY 2018 or FY 2019. In FY 2018, the 5-Digit tally proportions were essentially the same for "Modeled/Proportional," whereas "Correlated," and "Unrelated to Presort" cost pools all were well below the 5-Digit RPW volume proportion.[35] In FY 2019, the 5-Digit tally proportion for the "Unrelated to Presort" cost pools was well below that for the "Modeled/Proportional" and "Correlated" cost pools and all were well below the 5-Digit RPW volume proportion.[36]

In short, IOCS was not designed to estimate mail processing costs by rate category. Proposal Two is "the first such analysis using matched full-service IMb scans in support of a costing proposal."[37] Because the Postal Service has never before tried to justify a costing proposal based on this analysis, the Commission must carefully scrutinize the completeness and reliability of the IOCS analysis in support of Proposal Two. In this case, the Postal Service has not provided a complete or reliable analysis to justify the Commission accepting this kind of analysis to support its costing proposal.

[32] Postal Service Response to ChIR No. 1, Question 3(c).
[33] *See* Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 3 (May 11, 2021).
[34] *See id*.
[35] *See id*., FY2018 IOCS MP FCM Presort by Rate.xlsx, Tables 1-2.
[36] *See id*., FY2019 IOCS MP FCM Presort by Rate.xlsx, Tables 1-2.
[37] Postal Service Response to ChIR No. 1, Question 10(b).

The Postal Service has failed to undertake any analysis to assess whether the 5 percent of direct tallies for the allied and support activities it seeks to reclassify are representative; thus, the IOCS analysis in support of Proposal Two is incomplete and unreliable. Accordingly, the Commission must conclude that the IOCS analysis is not yet a reliable alternative approach to explicit modeling of the allied and support cost pools, and Proposal Two must be denied.

3. Postal Service Attribution and Distribution Methods Show that Mail Processing Costs for First-Class Mail Presort Letters Vary with Presort Level

Proposal Two's proposed reclassification of cost pools is also inconsistent with the Postal Service's attribution and distribution methodology. In Docket Nos. R2006-1 and RM2010-13 Pitney Bowes described how and why the Postal Service's attribution and distribution methodology show that allied / support costs vary with presort level. Specifically, Pitney Bowes demonstrated that the Postal Service's attribution and distribution theory shows that just as with piece sorting costs, almost all other mail processing costs vary with presort level for First-Class Letter Mail.[38] Accordingly, proposals to reclassify all allied and support costs as fixed and to exclude them from the First-Class Mail cost avoidance model could not be supported.

In Docket No. R2006-1, Pitney Bowes Witness Buc testified:

> In summary, Postal Service attribution and distribution methods show that container handling, allied labor, not handling, and general support costs vary with piece handling costs. And because piece handling costs vary with presort level, so too must the container handling, allied labor, not handling, and general support costs. Thus, according to both the attribution and distribution theory of the Postal Service, all of the cost pools that are classified as "fixed" actually vary with respect to presort level.[39]

And, as noted above, the Commission held:

> The Commission finds the Postal Service's assumption that the cost of non-modeled operations are not affected by worksharing to be insufficiently supported. The majority of the costs that MMA and Pitney Bowes claim are inappropriately treated as fixed are in mail processing activities that support other mail processing activities, including

[38] Docket No. R2006-1, Direct Testimony of Lawrence G. Buc on Behalf of Pitney Bowes, Inc. (PB-T-2) (September 6, 2006), at 13-20.
[39] *Id*., at 20.

> piece sortation. It is reasonable to assume that these supporting costs are at least indirectly affected by worksharing.[40]

In response to the Postal Service's renewed request to reclassify all allied and support costs as fixed in Docket No. 2010-13, Pitney Bowes again explained why such a change would be inconsistent with the Postal Service's attribution and distribution methodology, stating:

> The Commission's conclusion that allied / support costs are at least indirectly affected by worksharing is also consistent with the Postal Service's own attribution and distribution costing methods. Testimony submitted by the Postal Service's attribution and distribution witnesses in Docket No. R2005-1 confirms that the Postal Service's attribution and distribution methods for allied labor and for general support labor depend on the fact…that the costs for these activities are proportional to piece sorting costs, which in turn depend on presort level. *See e.g*., Docket No. R2005-1, USPS-T-12 (Bozzo) at 14; Tr. 10/2549-50 (PB/USPS-T12-2 (Bozzo)); USPS-T-11 (Van-Ty-Smith) at 18-19; Tr. 10/2460 (PB/USPS-T11-1 (V an-T y-Smith)).[41]
>
> …
>
> The Postal Service's attribution and distribution theory and methods have not changed since Docket No. R2006-1. The Postal Service did not rebut this testimony in that docket, and it does not address this issue in this one. So, there is no basis to alter Commission's prior finding that allied / support costs are at least indirectly affected by worksharing.[42]

The Commission agreed. Citing operational considerations and recent Postal Service econometric modeling on the volume variability of mail processing labor costs the Commission held:

> How mail processing labor costs vary with presort level and how they vary with volume are distinct fields of study, but they overlap in basic respects. One area of overlap is an assumption that the level of allied/support activity is dependent on the level of activity that occurs in the piece sorting operations that they support.
>
> From an operational standpoint, the major elements of allied/support activity are moving mail from a loading dock to various sorting operations, preparing the mail for induction in those operations, and then moving sorted mail back to the dock. The Commission's assumption that labor costs in most mail processing operations are 100 percent volume variable does not require specific analysis of the dependence of such allied/support operations on the level of the piece sorting operations that they support. The Postal Service, however, has made recent attempts to econometrically model the volume variability of mail processing labor costs. In the process, it has observed that

[40] PRC Op. R2006-1, at ¶ 5160.
[41] Docket No. RM2010-13, Reply Comments of Pitney Bowes Inc. (Apr. 4, 2011) at 11.
[42] *Id*., at 11-12.

> Insofar as each piece fed [to a piece-sorting operation] must be brought to and dispatched from the operation, related container handlings . . . will also be proportional to [Total Pieces Fed], as will "overhead" not-handling time that is driven by handling workhours.[43]

The Commission concluded that the operational and volume variability studies confirmed the Commission's established piggyback methodology:

> Based on its engineering judgment that the level of the major element of allied/support activity depends on the level of the piece sorting activity that it supports, the Postal Service "piggybacked" the volume variability of allied/support costs on the cost-weighted average of the volume variability that it measured for its direct sorting operations.
>
> The inference that the level of this aspect of allied/support activity depends on the level of the direct sorting activity that it supports is applicable to cost avoidance modeling. The level at which a mailing is presorted determines the number of direct sorting operations that it will require before it is delivered. Therefore, it is reasonable to assume that mail processing labor costs incurred by allied operations will vary in rough proportion to the number of sorting operations that they undergo.[44]

Proposal Two offers no evidence to rebut these findings. There has been no change in the Postal Service's attribution and distribution methodology. Because the Postal Service has failed again to meet its burden of proof to persuade the Commission to reconsider its prior holdings, the Commission should deny Proposal Two and reaffirm that without evidence to the contrary, the Commission-approved methodology will continue to reflect the established attribution and distribution methodology which show that allied and support costs vary with presort level.

Recent developments reinforce that the Commission's prior holdings that allied and support costs vary with presort level were correct. In Docket No. RM2020-13 the Postal Service presented an analysis showing that Delivery Bar Code Sorter (DBCS) operations for letter sorting are close to 100 percent volume variable, at 97.6 percent.[45] The analysis, based on a regression analysis, uses DBCS monthly labor hours between 2008 and 2019 from the Time and Attendance Collection System (TACS)

[43] Order No. 1320, at 41.
[44] Order No. 1320, at 41-42.
[45] Docket No. RM2020-13, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six) (Sep. 15, 2020), at 6.

and the payroll system as the dependent variable and total pieces fed (TPF), both current and lagged (from machine counts) as the sole measure of volume, as independent variables although other variables are included. The labor hours include runtime, incidental allied labor, setup and take-down, waiting for mail and activities other than the above not involving the handling of mail, and overhead activities.[46] The analysis found that TPF declined over the time period by about 37 percent from the start of FY 2006 to the end of FY 2019. Critically, TPF declined not just because of mail volume reductions, but also because of the shift in mail mix to Presort from Single Piece, and because within Presort, the shift to 5-Digit, as shown in Table 9, below reduce TPF. While TPF, Total First-Class Mail, and Single Piece letter counts all declined, 5-Digit letter counts actually increased.

Table 9 – DBCS TPF and First-Class Mail Volume

Fiscal Year	Volume (Billions)			
	DBCS TPF	Total First-Class Mail Letters	Single-Piece Letters	5-Digit Letters
FY 2006	361.2	91.9	42.1	18.5
FY 2019	261.5	51.2	16.0	24.4
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 9"				

As the measure of volume, the regression analysis uses only TPF counts (logs of the current and lagged value), but the model treats a piece fed (or its log or lagged log) to the DBCS as a piece fed, regardless of whether that fed piece entered the Postal Service as a 5-Digit letter or as a Single Piece letter. The results show that DBCS work hours, including those for incidental allied labor, are a highly statistically significant function of pieces fed. Thus, the estimate of percent attributable must be viewed as a function of not just mail volume but also of presort level.

Further, while the Postal Service in the past has suggested piggybacking the volume variability of allied and support cost pools on the sorting functions they support, meaning that allied and support

[46] Docket No. RM2020-13, Analysis of Labor Variability for Automated Letter and Flat Sorting, A. Thomas Bozzo & Tim Huegerich, Christensen Associates, September 2020, at 6-7.

labor hours perform similarly to DBCS labor hours with respect to pieces fed,[47] the PRC pool-by-pool variabilities back out the costs for selected activity codes from the total cost of the pool in calculating variability. Many of the pools have variabilities in the high 90 percent range, reducing the variabilities a little,[48] but the data shows that under the approved methods, these pools are highly volume variable, both with mail volume but also with presort level. Consequently, the labor hours in these allied and support cost pools respond to both changes in volume and presort level, consistent with findings of labor hours in the DBCS operation.

Notwithstanding these results, in Proposal Two the Postal Service asserts that presort level (and logically, therefore, changes in presort level) have no effect on labor hour requirements in the allied and support cost pools it proposes to reclassify from piggybacked to fixed. That position is both unsupported and untenable. The Postal Service cannot contend that its detailed volume variability studies show that allied and support cost pools are almost 100 percent variable with respect to volume and presort level, while simultaneously advocating to reclassify the very same allied and support cost pools to fixed with respect to presort level for purposes of the cost avoidance model.

To illustrate with a concrete example: assume mail volume piece count remains constant, but there is a shift from 5-Digit letters to AADC letters in response to a reduction in the 5-Digit discount. Using the mail processing variability estimates presented in Docket No. RM2021-13, the Postal Service would require more DBCS labor because TPF has increased, based on the assumption that AADC mail generally requires an additional sort as compared to 5-Digit letters and that sort is usually on the DBCS. Again, using the same mail processing variability estimates, the Postal Service would experience an increase in labor hour needs in allied and support activities. Stated otherwise, the Postal

[47] *See* Docket No. R2000-1, Direct Testimony of A. Thomas Bozzo on Behalf of the United States Postal Service, USPS-T-15 (Jan. 12, 2000), at 136-138.

[48] According to the Postal Service's filing of USPS-FY20-7, USPS-FY20-7 part1.xlsx, "Cost Pool Summary Table1-links," in looking at the 42 non-piece sorting pools, 31 pools, or 74 percent, have a volume variability factor greater than 0.95.

Service would experience an increase in labor hours in allied and support cost pools *caused by* the change in presort level. And yet, Proposal Two is based on the premise that the same change in presort levels will have no effect on these allied and support cost labor requirements.[49] The two positions are completely incompatible.

Proposal Two would also create additional inconsistencies. The Postal Service has stated that it has no immediate plans to seek changes in the Marketing Mail Letter cost avoidance model to conform with the proposed changes in Proposal Two to the First-Class Letter Mail cost avoidance model.[50] Yet, if a change were made to only the one model but not the other, it would create another paradoxical situation. As Table 10, below shows, there are nine shared cost pools where the activities is essentially the same for the letters in either product; thus, certain allied and support cost pools would be considered to vary with presort level for Marketing Mail letters, but not for First-Class Mail letters.

Table 10 – Cost Pools Treated Differently

Cost Pool	First-Class Mail Presort Letters		USPS Marketing Mail Letters	
	USPS Proposed Treatment	Unit Cost (Cents)	Current Treatment	Unit Cost (Cents)
NON MODS – D.PO BOX	Fixed	0.500	Proportional	0.331
NON MODS – ALLIED	Fixed	0.238	Piggybacked	0.165
NON MODS – MISC	Fixed	0.177	Piggybacked	0.082
MODS 17 – 1SCAN	Fixed	0.059	Piggybacked	0.029
MODS 18 – 1MISC	Fixed	0.026	Piggybacked	0.029
NON MODS – BUSREPLY	Fixed	0.004	Proportional	0.006
MODS 18 – REWRAP	Fixed	0.004	Piggybacked	0.004
MODS 18 – EXPRESS	Fixed	0.004	Piggybacked	0.001
NON MODS – EXPRESS	Fixed	0.000	Piggybacked	0.001
TOTAL		**1.011**		**0.649**
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 10"				

[49] Petition, at 7.
[50] Postal Service Response to ChIR No. 1, Question 8.

The inconsistencies between Proposal Two and the Postal Service's attribution and distribution methodology is further reason the Commission should reject Proposal Two as unsupported and incomplete.

4. Proposal Two is Inconsistent with Operational Analyses That Confirm Allied and Support Costs Vary with Presort Level

Proposal Two's request to reclassify 11 cost pools from piggybacked to fixed, thus excluding 1.642 cents of unit cost from the cost avoidance model, is inconsistent with operational analyses that confirm that allied and support costs vary with presort level. The cost pools at issue are listed in table 11 below, arrayed in descending order, the cumulative unit costs, the cost and cumulative cost distributions.

Table 11 – Cost Pools USPS Proposes Shifting to Fixed Treatment

Cost Pool	Unit Cost (Cents)	Cumulative Unit Cost (Cents)	% of Total	Cumulative %
MODS 17 – 1PLATFRM	0.613	0.613	37.3%	37.3%
NON MODS – D.PO BOX	0.500	1.113	30.4%	67.8%
NON MODS – ALLIED	0.238	1.351	14.5%	82.3%
NON MODS – MISC	0.177	1.528	10.8%	93.0%
MODS 17 – 1SCAN	0.059	1.586	3.6%	96.6%
MODS 18 – 1MISC	0.026	1.612	1.6%	98.2%
NDCS – PLA	0.018	1.630	1.1%	99.3%
NON MODS – BUSREPLY	0.004	1.634	0.2%	99.5%
MODS 18 – REWRAP	0.004	1.638	0.2%	99.8%
MODS 18 – EXPRESS	0.004	1.642	0.2%	100.0%
NON MODS – EXPRESS	0.000	1.642	0.0%	100.0%
Total	**1.642**	**1.642**	**100.0%**	**100.0%**
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 11"				

As discussed above, the Commission has previously held that allied and support pools support mail processing operations, so it is "reasonable to assume that they are affected by worksharing to the same extent as the proportional and fixed operations they support." [51] In Docket No. RM2010-13, the

[51] PRC Op. R2006-1 Op., ¶ 5161.

Commission described why the current piggybacked approach is consistent with operational aspects of allied and support cost pools:

> From an operational standpoint, the major elements of allied/support activity are moving mail from a loading dock to various sorting operations, preparing the mail for induction in those operations, and then moving sorted mail back to the dock.[52]

Stated otherwise, allied and support activities take mail to and away from sorts and the number of sorts is determined by presort levels. Therefore, absent explicit modeling of allied and support costs showing that they are unrelated to presort level, the model treats allied and support activities as varying indirectly with presort level.

The Commission's established methodology that allied and support activities vary indirectly with presort level is supported by prior testimony of the Postal Service's operational witness:

> As noted, the Postal Service's operational analysis focuses on tasks performed on the platform. The Commission recognizes that of all the various tasks performed in the allied/support cost pools, platform costs are the least likely to vary with presort level. But the Postal Service's own operational witnesses have shown that even platform-based tasks are avoided by highly presorted mail.[53]

In Docket No. R2005-1, the Postal Service operational witness outlined mail flows and operations for Non-Auto Presort, MAADC, AADC, and 5-Digit Letter First-Class Letter Mail, including details regarding mail entry at the first platform through all required sorts, and then loading mail sorted into carrier walk sequence onto vehicles for delivery to carriers.[54] The information showed that more finely sorted mail requires less allied and support activity in the operations required to get it to the delivery unit. The Postal Service has not offered any new evidence to challenge these findings, nor has it refreshed or amended its operational analysis to support Proposal Two. So the prior record evidence that allied and support activities vary indirectly with presort level is unrebutted.

[52] Order No. 1320, at 41.
[53] *See* Docket No. R2006-1, Tr. 11/2922 (PB/USPS-T42-5).
[54] *See* Docket No. R2005-1, Tr. 5/1642, 1644, 1645 (responses to interrogatories).

Proposal Two as first filed contained only a single paragraph of operational analysis to support shifting 1.642 cents of unit cost to fixed pools:

> On the other hand, observed costs in cost pools like the MODS 1PLATFRM may be correlated with presort, but the correlation is unrelated to the cost of presorting the mail. Pieces paying the AADC rate may incur higher MODS 1PLATFRM cost pool costs relative to 5-DIGIT pieces because they are less likely to be entered at the destination mail processing facility, but once at the destination mail processing facility, they will experience identical platform activities. At the destination mail processing facility, pieces in AADC and 5-DIGIT trays will incur a platform handling on arrival, then another as the pieces are dispatched in DPS trays. The set of cost pools assigned to "Unrelated" for this reason include: MODS 1PLATFRM, MODS 1SCAN, and NDC PLA.

As an initial matter, this analysis contradicts rather than supports reclassifying allied and support activities as fixed because it concedes that 5-Digit mail incurs less in platform costs than does less finely presorted mail during transportation activities to get that mail to the destination mail processing facility.

The deficiency in this initial justification prompted the Commission to issue information requests seeking more detailed explanations to justify the proposed reclassifications. The Postal Service's responses were not persuasive. The Postal Service merely asserted without more that AADC and 5-Digit mail "typically receive identical platform handlings" and that "transportation activities and costs are not influenced by presort workshare."[55] Dissatisfied with the Postal Service's responses to its initial information request the Commission gave the Postal Service a third opportunity to meet its burden of proof, but the Postal Service again failed to present any actual analysis or data that would require the Commission to revisit its prior holdings. Unsupported assertions, without more, cannot rebut prior testimony from the Postal Service's own operational witness and the Commission's prior findings.

To take one example, consider NONMODS ALLIED. The Postal Service was forced to concede that its analysis of the IMb scans of IOCS tallies did not support reclassification of the

[55] Postal Service Response to ChIR No. 2, Question 3(c).

NONMODS ALLIED cost pool from piggybacked to fixed, but it proposes to make the change anyway based on the conclusory statement that "mailings of all presort levels … receive identical handlings at the delivery unit."[56] This superficial assertion is inconsistent with the Postal Service's cost models.

Under the Commission-approved methodology, piece sorting cost pools at Non-Mods offices comprise about 66 percent (0.974 cents of the total unit cost of 1.487 cents) for Presort Letters.[57] The remaining 0.513 cents reside in the non-piece sorting pools. Unit cost for the NONMODS ALLIED pool are 0.238 cents, the largest non-piece sorting pool, with almost half of the total non-piece handling costs. The Postal Service describes the actions performed in the NONMODS ALLIED cost pool as consisting of "unloading DPS trays and staging them for carriers, or unloading trays of mail that could not be DPS'd and taking them to manual Incoming Secondary (IS) operations."[58] Similarly, the Summary Description states that one function of NONMODS ALLIED labor is "moving mail to/from the platform and/or distribution activities."[59]

The Postal Service's own cost avoidance models also contradict the position that NONMODS ALLIED costs do not vary with presort level. The cost avoidance models show that, on a unit basis, more finely presorted mail receives fewer manual sorts at the DDU, as discussed above. Table 12 displays TPH per 10,000 entered pieces for manual incoming secondary sorts at the destination unit for First-Class Mail Automation Presort Letters and also an index of sorts per piece (with 5-Digit indexed to 1.0).

[56] *Id*.
[57] Docket No. ACR2020, USPS-FY20-10, USPS-FY20-10 FCM Letters.xlsx, "CRA – PRESORT LETTERS", cells C63, C65, C67, C70, and C75.
[58] Postal Service Response to ChIR No. 2, Question 3(c).
[59] Rule 39 C.F.R. Section 3050.60(f) Report for FY 2019 (Summary Descriptions), Cost Segment 3, Clerks and Mailhandlers (July 1, 2020), at 3-7.

Table 12 – Average Manual Incoming Secondary Sorts at the Destination Unit for First-Class Mail Automation Presort Letters (Index: 5-Digit = 1.0)

Rate Category	TPH / 10,000 Pieces	Average Sorts per Piece (Indexed)
Automation Mixed AADC	877	3.4
Automation AADC	638	2.5
Automation 5-Digit	257	1.0
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 12"		

The intuitively obvious conclusion, inherent in the Commission-approved piggyback methodology, is that because additional sorts require additional labor to bring mail to and away from sorting operations, more sorting causes more allied labor. Therefore, the NONMODS ALLIED cost pool is not fixed on a unit basis across presort levels, rather it indirectly varies with the level of presort.

The Postal Service's recent statements in Docket No. RM2021-6 also contradict its proposal to reclassify platform and other allied and support costs as fixed:

> Currently, the Postal Service offers a 2.1 cent discount for Carrier Route Flats on "direct" pallets, because it costs less for the Postal Service to process "direct" pallets. As mentioned above, "direct" pallets can be cross- docked and moved directly, while all other pallets have to be taken apart, sorted, and reassembled first.[60]

Postal Service responses to Commission information requests in the same docket further contradict its position in Proposal Two that allied and support costs are unaffected by presort level:

> The premise of this question "that there are no additional costs avoided by preparing the 5-Digit pallets" is not true. While it is largely true that dropship avoided costs are largely driven by weight, thus invariant [to] presort workshare activities, costs are avoided by the specific preparation of pieces. Mail processing costs vary based on containerization, bundle preparation, and piece presort. The Postal Service offers discounts for Carrier Route 5-digit pallets to encourage mailers to prepare more direct pallets. To support those discounts, estimated avoided costs are developed between Carrier Route pieces and those inducted on 5-digit pallets. The primary operational reason for the avoided cost is that Carrier Route pieces entered on 5-digit pallets typically bypass the Incoming Primary bundle sortation at the plant.[61]

[60] Docket No. RM2021-6, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Three) (Apr. 8, 2021) at 12.
[61] Docket No. RM2021-6, Responses of the United States Postal Service to Chairman's Information Request No. 1, Question 5 (May 5, 2021).

The Postal Service's annual cost avoidance model for First-Class Mail letters shows, Mixed-AADC automation presorted letters receive, on average, two additional sorts as compared to 5-Digit automation presorted letters, and AADC automation presorted letters receive one additional sort.[62] Again, allied and support activities take the mail to and from the machines and manual cases that perform these sorts; thus, the Postal Service's own model shows that allied and support costs do in fact vary indirectly with presort level.

Classifying the allied and support activities as fixed and excluding them from the cost avoidance model is also inconsistent with the Commission's prior findings that "that density and level of presort are integrally related and mutually dependent and that this must be recognized when the cost effects of presorting are measured for purposes of evaluating workshare discounts."[63] This holding is consistent with Pitney Bowes operational experience. For example, Pitney Bowes routinely prepares "pallet separations," described by the Postal Service operations witness in Docket No. R2005-1 as follows:

> From my knowledge, it can be confirmed that some mailers and presort bureaus prepare letter trays on "pallet separations". When trays are placed on pallets by the mailer for specific facilities/destinations, the process of sorting the trays at the origin plant can be avoided. … [T]he pallets/containers prepared for specific facilities/destinations can be directed to SWYB and/or to the platform for pallet sorting and placement on outbound transportation by passing on tray breakdown operation. … In some case, the containers for specific facilities/destinations prepared by mailers are transported directly out of the mailer facility bypassing the pallet sort/cross-dock operation on the platform at the local plant, which in some cases may also result in the savings of one transportation leg.[64]

Pitney Bowes coordinates with the Postal Service to ensure its mail can be received and processed in the most efficient manner possible. For certain Pitney Bowes facilities, the Postal Service may designate up to 80 different types of pallet separations based on transportation mode (e.g., air,

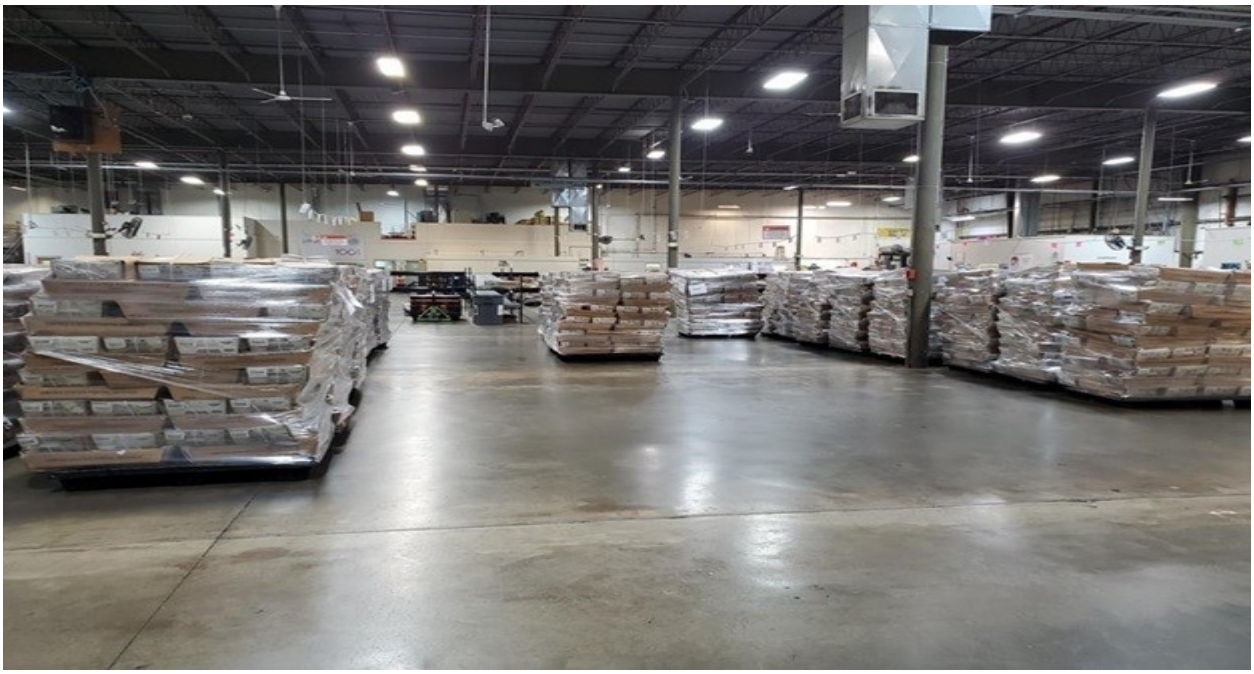
[62] Docket No. ACR2020, USPS-FY20-10, USPS-FY20-10 FCM Letters.xlsx, difference in the sum of TPH on "AUTO MAADC COST", "AUTO AADC COST", and "AUTO 5-DIGIT COST".
[63] Order No. 1320, at 39.
[64] Docket No. R2005-1, Responses of United States Postal Service Witness McCrery to Interrogatories of Pitney Bowes, Inc. (PB/USPS-T29-1-16) (Jun. 15, 2005), Response to PB/USPS-T29-5.

surface, mixed) and local entry. The pallet separations are designed to minimize Postal Service container handlings. Generally, sites entering more mail are able to accommodate and make a larger number of pallet separations. Not only can sites with more volume make a greater number of optimized separations, but as mail volume from a site grows, more of the mail on the pallets becomes more finely presorted.

Further, Pitney Bowes can optimize the ZIP Code ranges on the pallets to minimize pallet and tray handlings as the mail moves through the Postal Service's network. A low volume mailer with only one or a few pallets typically enters it all on mixed pallets at the local processing plant. The plant then must sort the trays to the airmail facility, to local mail for sorting at that plant, and to intermediate surface transportation centers (STC). In contrast, Pitney Bowes routinely prepares pallets containing 5-Digit trays that can be transported directly to the airmail facility and local mail to the local plant. Pitney Bowes also prepares, at the Postal Service's direction, pallets of 5-Digit trays in specified ranges to specified STCs or even directly to the destination processing plant. Figure 1 shows an example of this type of pallet separation. Figure 2 shows a pallet staging area at a Pitney Bowes facility.

Figure 1 – Pallet with 5-Digit Trays for North Texas P&DC

Figure 2 – Pallet Staging Area



All of these activities are valuable to the Postal Service because they minimize allied and support labor costs, further confirming that the Commission-approved methodology appropriately treats allied and support costs as varying with respect to presort level.

5. A Simple Thought Experiment Confirms Allied and Support Costs Vary with Presort Level and Shows Why Proposal Two Must be Rejected

In Docket No. R2006-1, Pitney Bowes witness Buc presented several thought experiments to illustrate why the Postal Service's proposal to treat all non-modeled costs as fixed was flawed. Because Presorted First-Class Letter Mail is, by definition, more finely presorted than Single-Piece Letter mail, comparing the unit cost by cost pool between the two categories provides useful information about how presorting (or lack thereof) affected unit costs. Specifically, the thought experiments helped illuminate whether unit costs in cost pools tended to be fixed with respect to presort level or whether the unit costs tended to vary with presort level. A simple thought experiment likewise shows how the proposed cost pool reclassifications in Proposal Two would create extraordinarily counter-intuitive implications for how allied and support costs behave as presort levels change.

As shown in Table 13 below, the Postal Service's own cost model shows that the average Automation First-Class Mail Letter piece receives 2.4 sorts. The data show that MAADC pieces average 4.1 sorts, AADC pieces average 3.1 sorts, and 5-Digit pieces average 2.0 sorts.

Table 13 – First-Class Mail Automation Letters Average Sorts per Piece

Rate Category	Average Sorts per Piece	Volume
Automation Mixed AADC	4.1	1,575,578,656
Automation AADC	3.1	7,524,739,336
Automation 5-Digit	2.0	24,505,360,260
Weighted Average	**2.4**	
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 13"		

Now assume that all Automation Letters convert from AADC and 5-Digit to MAADC. Further assume that the Commission accepted Proposal Two and all of the allied and support cost pools designated by the Postal Service were reclassified from piggybacked to fixed and thus excluded from the First-Class Mail cost avoidance model. What would happen to the unit costs in the allied and support cost pools that Proposal Two reclassified as fixed / unrelated? The answer, implausibly, is nothing. If Proposal Two were adopted there would be no change in the unit cost for these allied and support cost pools even though on average pieces would now require an additional 1.7 sorts over the current level.

Now assume that all Automation Letters convert from MAADC and AADC to 5-Digit. Again, further assume that Proposal Two is adopted and all of the allied and support cost pools designated by the Postal Service are reclassified as fixed / unrelated and excluded from the cost avoidance model. What would happen to the unit costs in the allied and support cost pools that Proposal Two reclassified as fixed / unrelated? Again, the answer is nothing. Despite the fact that on average Automation First-Class Mail letters would now require 0.4 fewer sorts as compared to the current state. Stated otherwise, under Proposal Two in either scenario 1.8 cents of unit cost, or 83 percent of all costs that are not piece sorting costs, would remain completely unchanged. These results are implausible. They also cannot

be reconciled with the current methods for attribution and distribution nor with the Postal Service's attribution proposal in Docket No. RM2021-6.

The thought experiment and all of the reasons discussed above confirm that Proposal Two provides no basis to revisit the Commission's prior findings that allied and support costs do vary indirectly with presort level. Accordingly, the Commission should reject the proposed cost pool reclassifications in Proposal Two.

B. Proposal Two Fails to Provide Reliable Evidence to Support Removal of P.O. Box Costs from the Cost Avoidance Model

The second element of Proposal Two, the proposed exclusion of P.O. Box costs from the First-Class Mail Presort Letter cost avoidance model and CRA adjustment, should also be rejected because it's based upon an erroneous and unsupported premise – that P.O. Box costs do not vary with rate category. This is incorrect. The established cost avoidance model shows that P.O. Box costs do, in fact, vary by First-Class Mail letters rate category. The Postal Service confirmed that this is so in response to Chairman's Information Request No. 1, Question 4. Table 14 below shows the modeled P.O. Box unit costs from the First-Class Mail Presort Letter cost avoidance model (USPS-FY20-10).

Table 14 – First-Class Mail Presort Letters Post Office Box Modeled Unit Cost

Rate Category	Modeled Unit Cost (Cents)
Nonautomation Nonmachinable	0.354
Nonautomation Machinable Mixed AADC	0.202
Nonautomation Machinable AADC	0.195
Nonautomation Machinable 5-Digit	0.195
Automation Mixed AADC	0.199
Automation AADC	0.195
Automation 3-Digit	0.196
Automation 5-Digit	0.189
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Table 14"	

The differences in modeled unit costs result from differences in the percentage of pieces being sorted to delivery point sequence on automation varying by rate category (the same cause of differences in delivery costs by rate category). In Docket No. R2006-1, the Postal Service proposed excluding the

resulting delivery costs avoidances from the First-Class Mail Presort Letter cost avoidances. The Commission correctly rejected this proposal:

> The Commission also finds it appropriate to continue the practice of including estimated delivery costs by rate category in the calculation of cost avoidances for discounted letter rates. Differences in delivery costs between letter categories arise from differences in the percentage of each category that are sorted in automated Delivery Point Sequencing (DPS) operations.[65]

The Commission should reject the Postal Service's proposal to exclude P.O. Box activities from the First-Class Mail Presort Letter cost avoidances for the same reason.

In support of Proposal Two, the Postal Service references the Commission's Order in Docket No. RM2012-8 (USPS Petition at 7) stating that "the extent to which a [flat] is workshared (or not) would not appear to affect the cost of distributing it to a post office box."[66] That statement is inapplicable to letters. Unlike letters, almost all of which are sorted to DPS on automation, the vast majority of flats (i.e., all but a portion of flats destinating in Flats Sequencing System zones) are only sorted to carrier route on automation. Accordingly, the Postal Service cannot justify the change to the First-Class Mail letters model on this basis.

Proposal Two proposes to exclude P.O. Box costs from the First-Class Mail letter cost avoidance model based on the assumption that the P.O. Box cost pool has properly isolated P. O. Box costs and does not include any other manual letter sorting costs incurred at post offices. This is a critical assumption because if the P.O. Box cost pool included some other manual letter sorting costs incurred at post offices, then excluding this cost pool would exclude from the CRA adjustment manual sorting costs that are included in the cost avoidance model, leading to an understated CRA adjustment.

The Postal Service has not offered sufficient proof that the P.O. Box costs do not include other manual letter sorting costs. The conclusory, narrative justification offered in Proposal Two is

[65] PRC Op. R2006-1, at ¶ 5155.
[66] Docket No. RM2012-8, Order No. 1656, Order on Analytical Principles Used in Periodic Reporting (Proposal Nine) (Feb. 14, 2013) at 17.

insufficient. The substantial, unexplained recent increases in the size of the P.O. Box sorting cost pool in all of the major letter products suggest the P.O. Box costs include other manual letter sorting costs. Table 15 below shows the increase from FY2017 through FY2020 for First-Class Mail Letters and Marketing Mail Letters.

Table 15 – P.O. Box Unit Costs from FY 2017 to FY 2020

Fiscal Year	(Cents)		
	First-Class Mail Letters		USPS Marketing Mail Letters
	Single-Piece	Presort	
FY 2017	0.52	0.23	0.14
FY 2018	0.75	0.31	0.21
FY 2019	0.80	0.37	0.23
FY 2020	1.08	0.50	0.33
FY 2017 – FY 2020 % Increase	107%	114%	134%
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Tables 15 & 16"			

The Postal Service's explanation of these recent increases is unavailing. First, USPS argues that the cost increases are due to a method change related to space costs.[67] This explanation fails, however, because the same overall trends appear in unpiggybacked P.O. Box costs, which exclude space costs, as shown in Table 16 below.

Table 16 – Unpiggybacked P.O. Box Unit Costs from FY 2017 to FY 2020

Fiscal Year	(Cents)		
	First-Class Mail Letters		USPS Marketing Mail Letters
	Single-Piece	Presort	
FY 2017	0.38	0.17	0.10
FY 2018	0.55	0.23	0.16
FY 2019	0.59	0.27	0.17
FY 2020	0.78	0.36	0.24
FY 2017 – FY 2020 % Increase	102%	108%	127%
Source: Pitney Bowes RM2021-4 Workpapers.xlsx, "Tables 15 & 16"			

Second, the Postal Service suggests that the trend results from an IOCS change between FY 2017 and 2018.[68] However, the Postal Service provides no quantification of this effect and the

[67] Postal Service Response to ChIR No. 1, Question 4(b).
[68] Postal Service Response to ChIR No. 1, Question 4(c).

explanation does not fit the data. While some of the increase did occur between FY 2017 and FY 2018, significant increases are observed after that change, during the FY 2018 to FY 2020 period. Furthermore, given the substantial difference in modeled P.O. Box costs and the corresponding CRA costs, the data raises the question whether the IOCS change brought the CRA P.O. Box activities captured in this cost pool more in line with those modeled costs or whether the change pushed them out of alignment.

Removal of P.O. Box costs from the First-Class Mail cost avoidance model is a non-trivial change - P.O. Box costs account for approximately 8.3 percent of the total unit cost - that cannot be accepted on the record before the Commission. The Postal Service concedes that it has not undertaken any analysis to justify the unexplained increase in CRA P.O. Box unit costs.[69] The Postal Service also concedes that it has not undertaken any analysis to update P.O. Box distribution productivities, while simultaneously acknowledging that the assumed productivities are unreliable.[70] For all of these reasons, the proposal to remove P.O. Box costs from the First-Class Mail cost avoidance model should be denied.

III. CONCLUSION

For the reasons stated above, the Commission should deny Proposal Two as unsupported by reliable evidence. The Commission has repeatedly rejected similar proposals to reclassify allied and support cost pools in the First-Class Model and the Postal Service has not provided the Commission with any basis to revisit its prior holdings. The Commission has been clear that it would not change the current piggyback methodology unless the Postal Service directly models allied and support costs. The Postal Service has not directly modeled these costs. The data from the Postal Service's analysis of IMb scans of IOCS tallies is incomplete and unreliable. The conclusions the Postal Service seeks to draw from the IOCS data are also inconsistent with other more reliable data. The available CRA

[69] Postal Service Response to ChIR No. 1, Question 4(b).
[70] Postal Service Response to ChIR No. 1, Question 4(d).

cost data, established methods for cost attribution and distribution, operational analysis, and thought experiments all confirm that the Commission's established methodology is correct; allied and support mail processing activities and costs vary indirectly by presort level. The record does not support the proposed exclusion of P.O. Box sorting costs, in fact, the evidence before the Commission confirms that P.O. Box costs vary with presort level. Accordingly, Pitney Bowes respectfully urges the Commission to reject Proposal Two.

Respectfully submitted:

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